

**RAND WEST CITY  
LOCAL  
MUNICIPALITY**



**2019/20 TABLED  
BUDGET  
ASSESSMENT**

TABLE OF CONTENTS

1. INTRODUCTION AND BACKGROUND..... 3

2. THE MID-YEAR PERFORMANCE AND ADJUSTMENT BUDGET..... 3

2.1. Mid-year budget outcomes..... 3

2.2. Mid-year budget outcomes..... 7

3. THE 2019/20 ANNUAL BUDGET: FUNDED COMPLIANCE ASSESSMENT ..... 8

3.1 Legal compliance of the budget ..... 8

3.2 Funding of the budget ..... 8

3.2.1 The Cash Flow ..... 8

3.2.3 Funding compliance and financial health..... 9

4. THE 2019/20 ANNUAL MUNICIPAL TABLED MTREF AND BUDGET BENCHMARKING OUTCOMES.....11

5. CONCLUSION AND RECOMMENDATION .....13

## 1. INTRODUCTION AND BACKGROUND

- a. The Gauteng Provincial Treasury (GPT) is responsible for reviewing and commenting on the tabled budgets of all delegates municipalities, prior to their adoption by the respective municipal councils. This is done in terms of the Municipal Finance Management Act, Act 56 of 2003 (Municipal Finance Management Act) as part of the Gauteng Provincial Treasury's oversight role over local government finances.
- b. The Rand West City Local Municipality is thus legislatively required to consider the recommendations of the Provincial Treasury in terms of sub-section 23(1) (b) and 23(2) of the Municipal Finance Management Act prior to the approval of the 2019/20 budget by the Municipal Council. This report is meant to serve this purpose and provides an assessment of the 2019/20 tabled budget of the Treasury on the annual budget and must be dealt with accordingly by the Municipality.

## 2. THE MID-YEAR PERFORMANCE AND ADJUSTMENT BUDGET

### 2.1. Mid-year budget outcomes

**Table 1: Mid-year budget and performance assessment submission**

Municipality	Date Report submitted to the Mayor	Date Report submitted to the GPT	Was the report submitted to Council	Submission in line with Reg 35 of MBRR		Report Format is in line with Schedule C as per Reg. 33 of MBRR	Report made public in line with Reg. 34 of MBRR
				Hard Copy	Soft Copy		
RWCLM	24 Jan 19	25 Jan 19	Yes	Yes	Yes	Yes	Yes

- a. The 2018/19 mid-year budget and performance report of the municipality was approved by the Executive Mayor on 24 January 2019 and timeously submitted to the Provincial Treasury on 25 January 2019. The mid-year budget and performance engagement with the management of the municipality was held on 21 February 2019.

b. Key discussions and resolutions from the Mid-term engagement:

<b>Discussion</b>
<p>Findings on AG's Report and measures to address the findings</p> <ul style="list-style-type: none"> <li>• The municipal financial ratios need to be improved. <ul style="list-style-type: none"> <li>✓ <i>Revenue enhancement implementation plan is reviewed o improve the cash flow of the Municipality.</i></li> </ul> </li> <li>• The UIFW totaled R726m and impairments from the previous financial year were considered to be very high. <ul style="list-style-type: none"> <li>✓ <i>Irregular expenditure to the amount of R530 million was written off.</i></li> <li>✓ <i>Fruitless expenditure to the amount of R32 million was written off.</i></li> <li>✓ <i>Unauthorized expenditure is still under investigation.</i></li> </ul> </li> <li>• Mining rates and property rates should be separated. <ul style="list-style-type: none"> <li>✓ <i>The mine's rates and taxes billing will be separated.</i></li> </ul> </li> <li>• Distribution losses <ul style="list-style-type: none"> <li>✓ <i>The plan to reduce distribution losses is in place.</i></li> </ul> </li> <li>• Action taken to address energy balancing to identify meter audit for large power users. Requested funding from CoGTA to address losses. <ul style="list-style-type: none"> <li>✓ <i>The Municipality is still awaiting funding from CoGTA.</i></li> </ul> </li> </ul>
<p>Conditional grant and capital project</p> <ul style="list-style-type: none"> <li>• The municipality was expecting to receive grant of R39 million from Human Settlement. <ul style="list-style-type: none"> <li>✓ <i>The municipality used internal funding for the HSDG projects 2017/18 and still awaiting to be reimbursed.</i></li> </ul> </li> <li>• The grant of R10 million that was erroneously excluded from adjustment budget has been corrected. <ul style="list-style-type: none"> <li>✓ <i>Done.</i></li> </ul> </li> </ul>
<p>Revenue and Expenditure</p> <ul style="list-style-type: none"> <li>• The municipality is engaging with relevant departments regarding underfunded mandates. <ul style="list-style-type: none"> <li>✓ <i>The SRAC grant is not sufficient to cover the costs, there is a shortfall of about 42% each financial year.</i></li> <li>✓ <i>The 20% that the Gauteng department of Transport is giving the Municipality to render the service is way less than the expenditure.</i></li> </ul> </li> <li>• The allocation to address these mandates are not sufficient to cover the cost of rendering the relevant services. <ul style="list-style-type: none"> <li>✓ <i>Refer to the bullet above.</i></li> </ul> </li> </ul>

- The property valuers captured agricultural and commercial rate valuations incorrectly. The community new development and town planning was not submitted therefore the tariff was not changed from agricultural to development/commercial/rezoned.  
 ✓ *The municipality is in the process and revaluing and correcting the values of properties.*
- The progress on mine debts. The municipality requested 2 years' extension from CoGTA to deal with mining issues.  
 ✓ *The municipality will be implementing the new general valuation roll from July 2021. The process has commenced.*
- The accruals at the beginning of the year causes a negative impact on debtors' book. Needs to be explained a bit more.  
 ✓ *The municipality is prioritizing the outstanding creditors as per the availability of funds.*
- The consumer deposit will be set-off by the amount owing from customers. The chances of repaying the full amount of deposit to customers are very low.  
 ✓ *As and when the clients closes the accounts, a full amount of deposits is credited onto the account and the client is refunded.*
- The municipality also acknowledged the improper budget planning.  
 ✓ *The budget is done in compliance with chapter 4 of the MFMA, Treasury regulations and circulars.*
- Strategy of dealing with the culture of non-payments is to implement cut-offs. There is a service provider that is currently assisting the municipality with the matter. The customers are also encouraged to pay. The policy of dealing with old account when customer pays the debt, new account cleared before old account.  
 ✓ *The municipality is fully implementing the credit control policy.*

#### Borrowings

- The municipality intends to acquire new fleet by finance lease, it is however not fully budgeted for in the current year. Need to budget for the finance charges depreciation, lease repayments. SCM process to be followed in appointing the financial institution. More beneficial to procure the vehicles and the financier in two separate tenders.  
 ✓ *The municipality has finalized the appointment of the new fleet contract.*

### Outstanding Issues

- Salaries and positions valuations and ongoing issue of structure.  
✓ *The process is still in progress.*
- The UIFW matter was taken to Council.  
✓ *The matter was taken to Council, MPAC is still investigating.*
- The mining issue will not be resolved soon.  
✓ *The disputes of the mines is still in progress.*
- There was a meeting that took place in December with CoGTA that generated work action plan and CoGTA is on board.  
✓ *The process is still in progress.*
- The municipality appointed a service provider for the collection of debt, Rand West City Local Municipality is however unable to identify the service provider's (Agent-MBD) contribution on what is collected on behalf of the municipality and owing by them.  
✓ *The municipality is currently reviewing the contract with MBD.*

### Conclusion

- The implementation of audit findings to be monitored on a quarterly basis.  
✓ *The OPCA meeting are held bi-weekly and chaired by the municipal manager to monitor progress*
- The municipality is required by CoGTA to respond on payments made to Councilors before the application and approval of concurrence. Grading remains at grade 4.  
✓ *The matter has been resolved.*
- The exercise of cutting the expenditure was done with MEC.  
✓ *The recommendations to cut expenditure as per MEC has been implemented in the adjustment budget 2018/19.*
- Rand West City Local Municipality to provide the list of customers/Creditors that as taking legal action against the municipality.  
✓ *The list for the above mentioned creditors will be provided.*
- The municipality to consider the tariff alignment for winter season to improve collections.  
✓ *The municipality is will be doing the tariff review with the assistance of CoGTA.*
- To follow up on service provider that was appointed as a debt collector. One of Gauteng municipality is engaged in legal action with the same service provider. The municipality is already owing an amount of R20 million to the service provider (Agent-MBD).  
✓ *The Municipality is currently reviewing the contract with MBD.*
- Concern about contracted services including security services.  
✓ *The contracted services for the 2019/20 financial year has been reviewed.*

- c. Progress against these resolutions will be tracked and discussed in subsequent engagements.

## 2.2 Mid-year budget outcomes

**Table 2: Adjustments Budget Submission**

Municipality	Date Report submitted to the Mayor	Date Report submitted to the GPT	Was the report submitted to Council	Submission in line with Reg 35 of MBRR		Report Format is in line with Schedule C as per Reg. 33 of MBRR	Report made public in line with Reg. 34 of MBRR
				Hard Copy	Soft Copy		
RWCLM	30 Jan 19	30 Jan 19	Yes	Yes	Yes	Yes	Yes

- a. The municipality tabled its adjustment budget in Council on 30 January 2019 (within the legislated timeframe) and was submitted to Gauteng Provincial Treasury on 31 January 2019 (within the prescripts of the MBRR). The submission to the provincial treasury was inclusive of the B schedule, council resolution, the quality certificate and the hard copy budget document which is with the requirements of the Municipal Budgeting and Reporting Regulations.
- b. The engagements with the MEC for Finance and political heads of municipalities emphasized that the 2018/19 adjustment budget and the 2019/20 annual budgets must be funded and credible. Furthermore, the 'Budget Council' meeting held at the National Treasury resolved that all 2019/20 Tabled and Adopted budgets must be fully funded.
- c. Municipal Finance Management Act Circulars 93 & 94, state that budget must be credible and be fully funded with cash reserves and therefore all 2019/20 budgets that are not funded will be rejected by the National Treasury.
- d. In this regard, our review of the municipality adjustment budget found it to be unfunded mainly based on the current significant outstanding creditors, especially bulk suppliers like Eskom and Rand Water and current liquidity challenges.

### 3. THE 2019/20 ANNUAL BUDGET: FUNDED COMPLIANCE ASSESSMENT

#### 3.1 Legal compliance of the budget

- a. The compliance checklist template of the National Treasury was used for this assessment and the more detailed compliance checklist is attached as 'Annexure F' to this report.
- b. The Municipality tabled the 2019/20 budget 90 days before the start of the budget year in Council on 27th March 2019. The printed and electronic formats of the budget document was submitted to Gauteng Provincial Treasury on 10th April 2019, but it was not submitted immediately after it was tabled in council, as per the guidelines of Municipal Finance Management Act Circular No. 94.
- c. The submission was however inclusive of the council resolution, quality certificate and all other budget related documents in accordance with the requirements of the Municipal Budgeting and Reporting Regulations.
- d. The AFS information to A-Schedule was not populated correctly and must be addressed immediately because it will mislead the users of financial information.
- e. The tabled budget data strings were submitted and complied with the 2019/20 MTREF budget using version 6.3 of the mSCOA classification framework. The Municipality successfully uploaded the tabled budget (TABB) data strings and the IDP project details data strings (PRTA).

#### 3.2 Funding of the budget

##### 3.2.1 The Cash Flow

**Table 3: The Cash Flow Statement**

- a. The opening balance for 2018/19 is not informed by closing balance of R43 million from 2017/18 AFS, the figure is overstated by R46 million. The opening balance for 2019/20 budget year was overstated by R34 million when taking into consideration the correct closing and opening balances from AFS to the current budget year.  
✓ *The cash flow statement as per sheet A7 of the A schedule has been updated, reviewed and corrected.*
- b. The positive cash flow balances for the two outer years is also considered to be overstated based on the current trends in the municipality.  
✓ *The cash flow balanced for two outer years has been reviewed and updated.*
- c. The municipality is exposed to a significant credit risk as its consumers are largely unemployed and are from low income households, it is therefore going to be difficult to realise a decrease in debtors of R70 million in 2019/20 and R120 million in 2020/21. The projection may be overstated hence the amount is increased from R785 thousand in the current year to R70 million unless there is a certain class of consumers being targeted or guaranteed payment arrangements with non-current debtors.  
✓ *The debtor's book has been categorized and the credit control is being fully implemented.*



### 3.2.2 Application of outstanding cash commitments against cash and cash equivalents

**Table 4: Cash Surplus / Shortfall**

- a. The above table is reflecting the closing balance of cash flow which is not realistic based on the provided information that is not complete.  
 ✓ *The cash flow has been updated as per sheet A7 of the A schedule.*
- b. The statutory requirements (VAT) from AFS for 2017/18 was R79 million. The statutory requirement of R98 million (SA3) was not populated which is understating the creditors payments and overstated the local cash after the application of cash and investments.  
 ✓ *VAT on SA3 has been updated.*
- c. The provision for statutory requirement which is VAT payables, must be estimated based on the previous year performance.  
 ✓ *VAT on SA 3 has been updated.*
- d. The municipality is not secured with cash backed reserves or investment to maintain the funded budget, the presented surplus is overstated.  
 ✓ *SA10 the funding measurement schedule has been updated. The municipality developed the funding model and the revenue enhancement and cost containment implementation plans to improve the funding of the budget.*

### 3.2.3 Funding compliance and financial health

- a. National Treasury requires that a municipality assesses its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. In short, the funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements as per section 18 of the Municipal Finance Management Act.

**Table 5: Financial Health**

- b. The assessment result on the Financial Health Indicators as follows:-

- **Cash or cash equivalents at the year-end + Investments after commitments**

The purpose of both these measures is to understand the lever of financial risk should the municipality be under stress from a collection and cash in-flow perspective, and its ability to meet its financial obligations.

The measures indicate significant positive cash flows which is considered unrealistic against the current state of affairs in the municipality. If the municipality could have demonstrated a level of success with the implementation of the financial recovery plan, then the projections could have been reasonable. Cash and cash equivalents at end of year for 2018/19 original budgeted amount

was reduced from R164m in the original budget to R74m in the 2018/19 adjusted budget and the budgeted amount for 2019/20 increases substantially to R269m.

- **Cash Coverage ratio**

The measure relies on the calculation of the municipality's ability to meet its monthly fixed operational expenditure from the available cash and cash equivalents in the event of a disaster.

The projected positive cash coverage ratios is at 1.8; 1.7 and 1.8 months, are considered to be unrealistic. There is a greater chance that the municipality will not be able to pay all creditors, meaning that there is a financial risk of interest charges and non-financial risk of non-compliance with municipal regulations.

- **Service charge revenue as a percentage increase less macro inflation target.**

The purpose of this measure is to understand whether the municipality is contributing appropriately to the achievement of national inflation targets by not over burdening communities with tariff increase more than inflation targets.

The municipality's own revenue generated from trading services is the main source of income, meaning, the funding of bulk purchases and other infrastructure programmes depends on the level of collection from customers. The credit control policy and internal controls must be reviewed and adhered to. The measure is positive in 2019/20 and dropped to negative and zero in the outer years which is of concern. There is no consistence or relationship with these measures, the latter must be explained. Property rates are to increase by 20% from R211m to R253m. This is an exceptionally high increase, and far exceeds the inflation rate. Service charges increases from R1,000m to R1,148m which is an increase of 14,5%. The increase needs to be explained.

- ✓ *Property rates and taxes increase by 6.4% from R224, 4 million to R288, 5 million.*
- ✓ *Electricity increases by 13.07% as per the NERSA guideline to the amount of R836, 9 million which includes the additional revenue from the meter audit of large power users.*
- ✓ *Water increases by 7.9% to the amount R64, 2 million as per the Rand Water guidelines.*
- ✓ *Other Services increase by 6.4% which is within the inflation rate.*

- **Cash receipts as a percentage of ratepayers and other revenue**

This factor is a macro measure of the rate at which funds are collected. This measure is intended to analyse the underlying assumed collection rate for the medium-term budget. In short, it measures the cash collection or debtors' payment rate.

The measure indicates an average of about 86% collection rate in 2019/20 which may be achieved given that the adjustment budget is at 84,6% collection rate, even though the rate is still below the norm of 95%. The distribution losses are also a contributing factor for low collection rate, by reducing losses and prioritise repairs and maintenance on water infrastructure, the level of collection can improve. The municipality should implement its financial plan effectively to improve the current state of affairs in the municipality.

- ✓ *The revenue enhancement implementation plan has been developed to improve the financial viability of the municipality.*

- **Debt impairment expense as a percentage of billable revenue**

This factor measures whether the provision for debt impairment is adequate or not.

The measure indicates that the municipality has made provision which is lower than what should have been provided against the collection rate of 86 percent. The expenditure is therefore understated, however, by improving the collection rate the expenditure will also decrease. The correlation between debt impairment and collection rate must be reviewed and corrected before the adoption of the final budget.

- ✓ *Debt impairment has been reviewed to the amount of R231, 7 million to cover the portion of non-payment by debtors.*

#### **4. THE 2019/20 ANNUAL MUNICIPAL TABLED MTREF AND BUDGET BENCHMARKING OUTCOMES**

- a. The Tabled budget engagement with the management of the municipality was held on 30th April 2019. The municipality presented their 2019/20 tabled budget on financial and non-financial information and the financial plan to ensure that the final budget is funded and credible. Gauteng Provincial Treasury presented the key findings on unfunded tabled budget that was submitted as funded and the municipality acknowledged findings.
- b. Key discussions and resolutions from the engagement:

<p>The municipality must have a clear plan to deal with the issues of institutional capacity and work CoGTA. The employee placement issue must be resolve ASAP.</p> <p>✓ <i>The finalization of the placement and the review of the organizational structure is in progress.</i></p> <p>✓ <i>Detailed report is available.</i></p>
<p>The municipality should get work streams and communicate with all levels of management to resolve the structural issues, the feedback to be send to Gauteng Provincial Treasury in 7 days after the day of the meeting.</p> <p>✓ <i>The plan for the work streams is in place.</i></p>
<p>The municipality to give estimated period on the finalization of institutional capacity.</p> <p>✓ <i>The detailed plan is available.</i></p>
<p>The district must coordinate the development plan for the region</p> <p>✓ <i>Noted.</i></p>
<p>Distribution losses and discrepancies on audit action plan are addressed. The reduction of losses will make a positive impact towards the achievement of the revenue enhancement plan.</p> <p>✓ <i>The plan to reduce distribution losses is in place.</i></p>
<p>The contract for service provider, MBD to be shared immediately with Gauteng Provincial Treasury and CoGTA for review.</p> <p>✓ <i>The contract with MBD is currently under review.</i></p>
<p>The municipality requested Gauteng Provincial Treasury to assist with grant of R39 million that should be received from Human Settlement.</p> <p>✓ <i>The municipality is still awaiting the transfer of the R39 million from HSDG.</i></p>
<p>Financial recovery plan will be part of performance plan for monitoring. The revenue enhancement plan will support the final budget to funded and complaint.</p> <p>✓ <i>The municipality developed the funding model and the revenue enhancement and cost containment implementation plans to improve the funding of the budget and to improve the financial viability.</i></p>
<p>The municipality was advised to notify the council about the engagement to give support and follow up on the progress.</p> <p>✓ <i>This report will be tabled with 2019/20 MTREF budget.</i></p>

## 5. CONCLUSION AND RECOMMENDATION

- a. The progress on the outstanding resolutions as per the mid-year engagement with the municipality will be tracked and reported in either subsequent engagements or directly to the municipality.

Recommendation: The municipality should note the list of resolutions and action it accordingly. The progress on the AG action plan on reduction of losses must be reported together with SDBIP.

- b. The adjustments budget of the municipality was found to be unfunded after considering the application of cash and investments. The Financial plan is expected to respond to current financial status.

Recommendation: The municipality should ensure the adopted annual budget adequately responds to the financial recommendations as captured in the approved financial recovery plan.

- c. The municipality seems to struggle to implement the approved financial recovery plan as no formal progress reports have been submitted by the municipality since the approval of the recovery plan by the MEC for Finance. The latter constitutes non-compliance with chapter 13 of the Municipal Finance Management Act.

Recommendation: The municipality must address of issues of non-compliance immediately and prepare progress reports to be submitted to the MEC for Finance. Monitoring of implementation of the financial plan must be reviewed by council for oversight to ensure that the final budget is credible and funded.

- d. The 2019/20 Table budget has been assessed as unfunded and financially unstable.  
Recommendation: The turnaround strategy for 2019/20 Final budget must be approved by Council to ensure that NT circular 93 is implemented.

### **ANNEXURE A: Tabled Budget Tables**

#### **Consolidated Budget summary (A1)**

- ✓ ***Table A1 has been reviewed and updated.***

#### **Consolidated Financial Performance (A4)**

- ✓ ***Table A4 has been reviewed and updated.***  
✓

#### **Consolidated Capital Expenditure (A5)**

- ✓ ***Table A5 has been reviewed and updated.***

#### **Consolidated Budgeted Cash Flows (A7)**

- ✓ ***Table A7 has been reviewed and updated.***  
✓

#### **Consolidated Cash Backed Reserves (A8)**

- ✓ ***Table A8 has been reviewed and updated.***

### **ANNEXURE B: NT Compliance Checklist**

- ✓ ***Compliance checklist will be attached***